2

Consolidated Financial Statements 2002

L'ORÉAL

ANNUAL REPORT 2002

Consolidated financial statements 2002

At its meeting on 25th March 2003, the Board of Directors closed the consolidated financial statements as presented below.

These financial statements will be submitted to the shareholders for approval at the Annual General Meeting on 22nd May 2003, in accordance with article L. 225-100 of the French Commercial Code. The results were reviewed by the Board of Directors on 19th February 2003 and announced in a news release on 20th February 2003.

The Board of Directors

(This is a free translation of the original French text for information purposes only.)

The L'Oréal Annual Report 2002 comprises three separate documents:
- a general brochure;
- the consolidated financial statements;
- the Management Report of the Board of Directors, together with the parent company financial statements and additional information for the Reference Document.

CONTENTS

CONSOLIDATED BALANCE SHEETS

€ millions

Assets (net values)	31.12.2002	31.12.2001	31.12.2000 Restated [1]	31.12.2000 Published
Fixed assets	**8,130.4**	**8,140.3**	**7,605.1**	**7,605.1**
Unissued share capital		**0.1**	**0.1**	**0.1**
Goodwill *(note 4)*	**778.3**	**686.5**	**506.5**	**506.5**
Intangible assets *(note 5)*	**4,011.4**	**4,127.3**	**4,134.6**	**4,134.6**
Tangible assets *(note 6)*	**1,747.1**	**1,761.3**	**1,611.6**	**1,611.6**
Financial assets	**154.9**	**172.2**	**230.4**	**230.4**
Investments in non-consolidated companies *(note 7)*	4.8	12.9	75.0	75.0
Long-term loans and other debtors	69.7	78.8	79.3	79.3
Deposits and bonds	80.4	80.5	76.1	76.1
Investments in associated companies *(note 8)*	**1,438.7**	**1,392.9**	**1,121.9**	**1,121.9**
Current assets	**6,842.3**	**6,723.5**	**6,255.8**	**6,013.4**
Stocks *(note 9)*	1,146.1	1,177.4	1,226.9	1,226.9
Prepayments to suppliers	63.9	68.9	79.3	79.3
Trade debtors *(note 10)*	1,991.5	2,191.8	2,168.4	2,168.4
Other debtors and prepaid expenses *(note 11)*	1,424.7	1,331.2	1,193.7	951.3
Short-term investments *(note 12)*	1,671.7	1,409.3	1,081.7	1,081.7
Cash and other short-term funds	544.4	544.9	505.8	505.8
Unrealised translation losses		**8.4**	**16.0**	**16.0**
TOTAL ASSETS	**14,972.7**	**14,872.2**	**13,876.9**	**13,634.5**

(1) The 2000 data presented as *Restated* allow for the impact of introducing the preferential method for the booking of employee retirement obligation and related benefits on the balance-sheet (see note on "Changes in accounting principles").

€ millions

Liabilities	31.12.2002	31.12.2001	31.12.2000 Restated (1)	31.12.2000 Published
Shareholders' equity (after minority interests) *(note 13)*	**7,421.8**	**7,199.1**	**6,168.6**	**6,590.4**
Share capital	135.2	135.2	135.2	135.2
Share premium account	953.4	953.4	953.4	953.4
Reserves	5,055.8	4,819.8	4,110.6	4,532.4
Net book profit	1,277.4	1,290.7	969.4	969.4
Minority interests *(note 14)*	**11.9**	**10.7**	**9.9**	**9.9**
Provisions for liabilities and charges *(note 15)*	**1,512.7**	**1,546.5**	**1,468.6**	**722.3**
Loans and debts *(note 16)*	**2,646.1**	**2,938.9**	**3,423.6**	**3,423.6**
Current liabilities	**3,380.2**	**3,170.4**	**2,799.9**	**2,882.0**
Accruals and deferred income	0.7	2.4	2.2	2.2
Trade creditors	2,006.7	1,847.1	1,726.9	1,726.9
Other creditors	1,372.8	1,320.9	1,070.8	1,152.9
Unrealised translation gains		**6.6**	**6.3**	**6.3**
TOTAL LIABILITIES	**14,972.7**	**14,872.2**	**13,876.9**	**13,634.5**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

€ millions

	31.12.2002	31.12.2001	31.12.2000 [1]
Net sales *(note 19)*	**14,288.0**	**13,740.4**	**12,671.2**
Purchases and variation in stocks	-2,519.0	-2,566.4	-2,352.3
Personnel costs *(note 20)*	-2,757.0	-2,624.3	-2,361.4
External charges	-6,521.2	-6,279.3	-5,807.7
Taxes other than on income	-211.6	-182.7	-160.4
Depreciation	-449.7	-431.8	-385.5
Charges to provisions *(note 22)*	-51.2	-29.9	-63.1
Operating profit	**1,778.3**	**1,626.0**	**1,540.8**
Exchange gains and losses	62.3	43.0	-59.5
Adjusted operating profit	**1,840.6**	**1,669.0**	**1,481.3**
Financial expense - net *(note 23)*	-142.2	-167.3	-159.3
Pre-tax profit of fully consolidated companies	**1,698.4**	**1,501.7**	**1,322.0**
Income tax *(note 24)*	-579.8	-535.9	-488.5
Net profit before capital gains and losses and minority interests of fully consolidated companies	**1,118.6**	**965.8**	**833.5**
Group's share of net profit before capital gains and losses and minority interests of equity affiliates *(note 25)*	345.2	269.8	199.9
Net profit before capital gains and losses and minority interests	**1,463.8**	**1,235.6**	**1,033.4**
Charges to provisions for depreciation of treasury shares - net	-80.3	—	—
Capital gains and losses on disposals of fixed assets - net *(note 26)*	-16.6	130.7	-10.3
Restructuring costs - net *(note 27)*	-31.5	-28.3	-24.3
Amortisation of goodwill *(note 28)*	-50.3	-40.7	-24.0
Net book profit before minority interests	**1,285.1**	**1,297.3**	**974.8**
Minority interests	-7.7	-6.6	-5.4
Net book profit after minority interests	**1,277.4**	**1,290.7**	**969.4**
Average number of shares outstanding	675,990,516	676,062,160	676,062,160
Net book profit after minority interests per share (in euros)	1.89	1.91	1.43
Net profit before capital gains and losses and after minority interests	**1,456.2**	**1,229.1**	**1,027.8**
E.P.S.: Net profit before capital gains and losses and after minority interests per share (in euros) *(note 29)*	**2.15**	**1.82**	**1.52**

(1) The 2000 figures have been restated to bring them into compliance with the group's Accounting Plan in 2001. The restatements do not affect any of the profit figures published in 2000.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

€ millions

	Number of shares outstanding	Share capital	Premiums	Translation adjustments(1)	Consolidated reserves and profit	Changes in accounting methods	L'Oréal shares held by consolidated companies	Total
At 31.12.1999 new reference	**676,062,160**	**135.2**	**953.4**	**-308.4**	**4,845.5**	**171.9(2)**		**5,797.6**
Recording of employee retirement obligation						-338.5(3)		-338.5
At 31.12.1999 restated	**676,062,160**	**135.2**	**953.4**	**-308.4**	**4,845.5**	**-166.6**		**5,459.1**
Recording of employee retirement obligation						-83.3(4)		-83.3
Dividends paid (not paid on treasury shares)					-236.9			-236.9
Translation adjustment				57.6				57.6
Other movements(5)					2.7			2.7
2000 consolidated net profit (after minority interests)					969.4			969.4
At 31.12.2000 restated	**676,062,160**	**135.2**	**953.4**	**-250.8**	**5,580.7**	**-249.9**		**6,168.6**
Dividends paid (not paid on treasury shares)					-317.6			-317.6
Translation adjustment				21.9				21.9
Other movements(5)					35.5			35.5
2001 consolidated net profit (after minority interests)					1,290.7			1,290.7
At 31.12.2001	**676,062,160**	**135.2**	**953.4**	**-228.9**	**6,589.3**	**-249.9**		**7,199.1**
Dividends paid (not paid on treasury shares)					-391.7			-391.7
Translation adjustment				-565.6				-565.6
Change in number of L'Oréal shares held by consolidated companies	-1,640,000						-116.1	-116.1
Other movements(5)					18.7			18.7
2002 consolidated net profit (after minority interests)					1,277.4			1,277.4
At 31.12.2002	**674,422,160**	**135.2**	**953.4**	**-794.5**	**7,493.7**	**-249.9**	**-116.1**	**7,421.8**

(1) The figure of -€ 794.5 million at 31st December 2002 includes -€ 63.5 million of translation adjustment for subsidiaries situated in the euro zone.
(2) This amount reflects the application of Regulation 99-02, and in particular the booking of deferred tax according to the extended concept, and the activation of financial lease contracts whose impact is material.
(3) This reflects the impact of adopting the preferential method for provisions relating to employee retirement obligation and related benefits (see chapter on "Accounting principles and comparability of financial statements").
(4) The adjustment of some economic hypotheses and the introduction of new systems in 2000 have an impact of € 83.3 million for the year considered.
(5) The other movements figure relates mainly to Sanofi-Synthélabo.

CONSOLIDATED CASH FLOW STATEMENTS

€ millions

	31.12.2002	31.12.2001	31.12.2000 (1)
Cash flow from operating activities			
Profit of fully consolidated companies	939.9	986.6	769.4
Elimination of expenses and income with no impact on cash flow:			
• depreciation and provisions	721.2	556.4	507.5
• variation in deferred taxes	-94.9	-19.5	-4.6
• losses or gains on disposals of assets of fully consolidated companies	15.4	-104.2	15.8
• other non-cash movements	-2.5	-1.5	-1.9
Cash flow of fully consolidated companies	**1,579.1**	**1,417.7**	**1,286.2**
• dividends received from equity affiliates	94.4	62.9	49.1
• variation in working capital requirement *(note 30)*	162.8	139.2	-356.6
Net cash provided by operating activities (A)	**1,836.3**	**1,619.9**	**978.7**
Cash flows from investing activities			
• acquisitions of fixed assets	-539.1	-564.7	-480.3
• variation in other financial assets *(note 31)*	-476.3	-323.0	-465.5
• disposals of fixed assets	26.8	-16.7	15.9
• effect of changes in the scope of consolidation *(note 32)*	-202.6	151.6	-1,194.9
Net cash used by investing activities (B)	**-1,191.2**	**-752.8**	**-2,124.8**
Cash flows from financing activities			
• dividends paid	-427.0	-345.4	-266.7
• variation in loans	-242.2	-393.7	1,368.7
Net cash used by financing activities (C)	**-669.2**	**-739.1**	**1,102.0**
Effect of exchange rate fluctuations (D)	-40.7	-3.3	3.3
Change in cash and cash equivalents (A+B+C+D)	**-64.8**	**124.7**	**-40.8**
Cash and cash equivalents at beginning of year (E)	**594.1**	**469.4**	**510.2**
Cash and cash equivalents at end of year (A+B+C+D+E) *(note 33)*	**529.3**	**594.1**	**469.4**

(1) The 2000 figures have been restated to bring them into compliance with the group's Accounting Plan in 2001. The restatements affected the cash flow of the fully consolidated companies and the variation in working capital requirement by € 9.1 million in 2000. Overdrafts have been reclassified as cash and cash equivalents instead of debts.

The following notes form an integral part of the consolidated financial statements.

NOTE 1 - ACCOUNTING PRINCIPLES

The financial statements are presented in millions of euros.

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") have been prepared since 1st January 2000 in accordance with "the new accounting rules and methods for the consolidated financial statements", approved by the order of 22nd June 1999 homologating Regulation CRC 99-02.

a) Changes in accounting principles and comparability of financial statements

1) 2002

Since 1st January 2002, the L'Oréal group has been applying Regulation CRC 00.06 on liabilities. The application of this regulation has had no material effect on shareholders' equity at the beginning of the year.

Since 1st January 2002, the group has also chosen to adopt the preferential method stipulated in Regulation CRC 99-02 concerning the recording in the financial statements of unrealised translation gains and losses. The adoption of the preferential method has no material impact on the results of the accounting periods presented, or on shareholders' equity at the beginning of the year.

2) 2001

From 1st January 2001 onwards, the group has opted for the preferential method stipulated in Regulation CRC 99-02 concerning the recording on the balance sheet of all employee retirement obligation and related benefits. Previously, the net liabilities of the capitalised funds were recorded as provisions for charges or debts, or as off-balance sheet liabilities.

The figures indicated for 2000 in the balance sheet under the heading "Restated" allow for the impact of this change in the accounting principle; the impact on the financial statements of the years presented is not material.

This change has resulted in:

- an increase in provisions for liabilities and charges of € 664.2 million for year ending 31st December 2000,
- an increase in deferred tax assets of € 242.4 million for year ending 31st December 2000,
- a reduction in shareholders' equity of € 421.8 million for year ending 31st December 2000.

Furthermore, the reclassification on the balance sheet of debts arising from liabilities relating to employee retirement obligation and related benefits under the heading *Provisions for liabilities and charges* amounts to € 82.1 million for year ending 31st December 2000.

3) 2000

It should be noted that the application of Regulation CRC 99-02 with effect from 1st January 2000, has resulted in the following changes:

- The inclusion of deferred tax liabilities evaluated using the balance sheet approach and the extended concept. The impact of these liabilities for the periods considered has not been significant but led to an increase in shareholders' equity of € 166.8 million on 1st January 2000.
- The adoption of the preferential method for the capitalisation, in the financial statements for year ending 31st December 2000, of substantial capital lease contracts (financial leasing). This change in accounting principles had a positive net impact of € 5.1 million on shareholders' equity at the beginning of 2000. The impact on the results of the accounting periods presented is not material.
- The introduction of new accounting principles relating to the acquisition of shares in consolidated companies. It is hereby indicated that, in accordance with the derogation granted in Regulation CRC 99-02, the group has opted for a forward-looking application of transactions relating to acquisitions and disposals of the shares of consolidated companies.

In the profit and loss account, reclassifications have been carried out on the figures for 2000 to bring them into compliance with the stipulations of the group's Accounting Plan. These reclassifications have no impact on the levels of results presented.

The acquisitions and disposals of shares carried out in 2000 and 2001 have no significant impact on the structure of the financial statements presented.

b) Scope and method of consolidation

All companies included in the scope of consolidation have a fiscal year ending 31st December or carry a cut-off on that date.

All companies directly or indirectly controlled by the parent company, L'Oréal, have been consolidated by the full consolidation method, redeeming minority shareholders' interests via the partial revaluation method.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been consolidated by the proportional consolidation method.

Associated companies of a significant size in which the group holds a substantial interest have been accounted for by the equity method.

c) Foreign currency translation

1) Accounting for foreign currency transactions in consolidated companies

Foreign currency transactions are based on the exchange rates of the transaction date. Exchange gains or losses arising from the movement in exchange rates between the date of the transaction and the related payment or receipt are recorded in the profit and loss account, net of related hedging instruments.

Debtor and creditor balances denominated in foreign currencies have been translated using exchange rates as at the fiscal year end. Unrealised translation gains and losses are entered on the financial statements, as are the revaluations of the related hedging instruments.

The group may decide to cover certain investments in foreign companies by contracting debts in the same currency. Exchange gains or losses relating to these debts are charged to consolidated shareholders' equity.

2) Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at the exchange rates ruling at the fiscal year end. Profit and loss accounts are translated at average exchange rates for the year.

Variations in translations are recorded as follows:
- differences relating to the group's share are recorded in shareholders' equity under *Translation adjustment*,
- differences relating to minorities are recorded under *Minority interests*.

d) Goodwill

Goodwill consists of the difference between the cost of the acquisition of the shares and the fair value of the assets and liabilities identified, after allowing for any deferred tax liabilities at the date of acquisition.

Further complementary acquisitions of shares do not result in any modification of the valuations of the assets and liabilities identified, as determined at the date the controlling interest already consolidated is taken.

Goodwill is amortised by the straight-line method over a maximum period of twenty years, taking into account the objectives set and the forecasts made at the time of the acquisition.

Exceptional amortisation is recorded if any unfavourable changes occur in the items used as the basis for the amortisation plan.

e) Intangible assets

Intangible assets are recorded on the balance sheet at cost price. Those items identified following an acquisition are also included in this item. They consist mainly of trademarks, market share and business value, which are recorded on the balance sheet using the partial revaluation method.

The value of the newly-acquired brands is calculated based on various factors including their reputation and potential contribution to profits.

When the group acquires assets and shares of consolidated companies, the proportion of the acquisition price that relates to the obtaining or strengthening of the group's position in certain markets is entered under the item *Market share*. Market shares are valued on the date of acquisition by reference to economic data relating to sales and profitability indicators.

The *Business value* item consists of business value acquired and allocations of some fair value adjustments made prior to 1st January 2000.

The depreciation periods of intangible assets are as follows:

Start-up costs	1 – 5 years
Trademarks, market shares and business value	not amortised
Other intangible assets	2 – 8 years

The group ensures that the intangible assets recorded in the consolidated balance sheet have a net book value below their utility or market value. Brands and market shares are valued annually by applying the same criteria used at the date of acquisition. In the case of business value, the main criteria considered are trends in sales volume and profitability.

If a durable reduction in these values occurs, a depreciation is recorded.

f) Tangible assets

Tangible assets are recorded on the balance sheet on the basis of their acquisition price. Tangible assets identified following an acquisition are recorded on the balance sheet using the partial revaluation method.

The depreciation periods of tangible assets are as follows:

Buildings	20 – 50 years
Industrial machinery and materials	5 – 10 years
Other tangible assets	3 – 10 years

The straight-line and declining balance methods used are considered to represent economic depreciation.

Key capital goods financed through capital leases are recorded as assets on the balance sheet under *Tangible assets* and are amortised by the straight-line method using the periods indicated above. The corresponding debt is recorded under liabilities.

g) Investments in non-consolidated companies

Investments in non-consolidated companies are stated at their acquisition cost value. Provision is made for any reduction in fair value, determined on the basis of the financial criteria most appropriate to the specific situation of each company. The criteria usually adopted are: the group's share of net assets, profitability and share price.

h) Stocks

Stocks are valued using the weighted average cost or the "first in, first out" method.
Provision is made for obsolete and slow-moving stocks on the basis of actual and forecast sales.

i) Trade debtors

Trade debtors are recorded at their nominal value.

Provision is made for any uncertain debts based on an assessment of the risk of non-recovery.

j) Prepayments and accrued income

This item consists both of charges recorded in this accounting period but which relate to subsequent accounting periods, and of charges recorded in this accounting period but which may be deferred to several subsequent accounting periods.

The item includes point of sales advertising material and sales counters, whose costs may be spread over a maximum period of use of 5 years.

k) Short-term investments

These investments are stated at cost. Provision is made where the year-end market value is below the acquisition cost.

l) Treasury shares - Share option schemes - Share buyback programme

Treasury shares retained by the group which are specifically allocated to employee share option schemes are entered under *Short-term investments*.

Stock options are intended to involve, motivate and strengthen the loyalty of employees who make the largest contribution to the group's performance through their skills and commitment.

In the case of share option schemes prior to 2000, a provision for depreciation has been made to cover the difference between the acquisition price of the shares and the price at which the options are exercised by the beneficiaries. Since 1st January 2000, no discount has been granted on the option allocation price. Provided that the shares are purchased at a lower price than the attribution price, no provision for depreciation is required. However, a provision is made in the event of any decline in the share price; the provision consists of the difference between the net book value of the shares and the average share price over the month preceding the balance-sheet date.

Share options do not cause any dilution of equity by the creation of shares. They have no impact either on the amount or the structure of the equity.

In accordance with Article L. 225-102 of the French Commercial Code, French employees of the group hold L'Oréal shares through two unit trusts.

The acquisition cost of any treasury shares acquired as part of the share buyback programme is deducted from consolidated shareholders' equity.

m) Provisions for liabilities and charges

Provisions for liabilities and charges are set up to cover potential outlays for the benefit of third parties without a return for the group. They relate mainly to tax liabilities and litigation, industrial and commercial liabilities relating to operations (breach of contract, product returns) and personnel costs.

They are estimated on the basis of the most likely hypotheses or by using statistical methods, depending on the type of provisions.

Provisions for employee retirement obligation and related benefits, and deferred tax liabilities, are also recorded under this heading.

n) Provisions for employee retirement obligation, early retirement and related benefits

The group has decided to declare in the consolidated financial statements all employee retirement obligation and related benefits from 1st January 2001.

The group adheres to local legislation and regulations in its management of pensions, early retirement and other related benefit schemes.

The characteristics of the schemes in force in the group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. In addition, an early retirement plan and a defined benefit plan have been set up. In some group companies there are also measures providing for the payment of certain healthcare costs for retired employees.
  These obligations, except for those relating to healthcare costs for retired employees, are partially covered by external financial plans.

- For foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of the vested rights of employees.

The charges recorded in the profit and loss account, under the heading *Personnel costs*, include:
- additional rights acquired by employees during the accounting period,
- the change in the value of the rights when they are updated at the start of the accounting period based on the annual trends,
- the income from external funds calculated on the basis of the standard return on long-term investments,
- the impact of any changes to schemes in previous years or of any new schemes,
- the depreciation of any variation from the actuarial calculation.

The debt relating to the company's net personnel obligation is recorded as a liability on the balance sheet, under the heading *Provisions for liabilities and charges*.

To determine the discounted value of the obligation for each scheme, the group uses an actuarial allocation method on a final salary basis (projected credit unit method). The obligations and the coverage assets are valued each year, allowing for length of service, life expectancy, staff turnover by category and economic hypotheses (inflation rate and discounting rate).

The cumulative effects of variations from the actuarial calculations are depreciated over the average residual period of activity of active employees, unless such variations do not exceed 10% of the higher of the gross commitment amount or the fair value of the covering assets (corridor principle). The depreciation of the difference is included in the annual actuarial charge of the following accounting period. Differences observed in relation to other benefits, such as jubilees and medals, are immediately charged to the profit and loss account without the application of the corridor principle.

o) Net sales

Consolidated sales include sales of products, goods and raw materials, as well as other revenues and service income related to the group's normal activities.

They are stated net of rebates and discounts.

p) Advertising and public relations expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are charged to the profit and loss account of the accounting period during which they are incurred. An exception to this is the cost of samples and point of sales materials that are still considered to be commercially useful and that are recorded on the balance sheet under *Prepayments and accrued income*.

q) Research and development expenditure

Research and development expenditure is charged to the profit and loss account of the fiscal year during which it is incurred.

r) Adjusted operating profit

Adjusted operating profit includes exchange gains and losses, employee profit sharing, and exceptional expenses and income generated by the group's operations.

s) Income tax

This is the sum of the income tax payable by each consolidated fiscal entity, after adjustment to allow for deferred tax.

Deferred tax is calculated wherever temporary differences occur between the tax base and the consolidated statement of assets and liabilities, using a balance sheet approach and variable carry-forward. Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is calculated on the basis of the rate of taxation and the fiscal rules in force at the balance sheet date, which will also be in force once the temporary differences no longer apply.

Deferred tax assets are only recorded in the case of tax loss carry-forwards from consolidated entities if it is probable that the entities will be able to recover them through taxable profits from the period in which the deferred tax assets are valid.

Under the French system of fiscal consolidation, some French companies in the group compensate for their taxable incomes when determining the overall tax charge which only the parent company L'Oréal remains liable to pay. Fiscal consolidation systems also exist outside France.

t) Net profit before capital gains and losses and minority interests

This item consists of the net book profit before the following:
• charges to/reversals of provisions for depreciation of treasury shares net of tax,
• capital gains or losses, net of tax, on the disposal of fixed assets,
• restructuring costs net of tax,
• amortisation of goodwill.

u) Method used to calculate earnings per share

Earnings per share is obtained by dividing net profit before capital gains and losses and after minority interests by the number of shares outstanding during the accounting period, after deducting the average number of shares held by consolidated companies and thus deducted from shareholders' equity.
Treasury shares allocated to employees under existing share option schemes are carried under *Short-term investments*. They are therefore included in the number of shares outstanding.

v) Recording of financial instruments and derivatives

In accordance with group financial management policies, none of L'Oréal's consolidated companies conduct any money market transactions for speculative reasons:

• With regard to exchange rates, long-term contracts and options are negotiated to cover commercial transactions recorded on the balance sheet and cash flows on commercial transactions whose completion is considered to be highly probable. The losses and gains generated by these instruments are recorded symmetrically with the items that they cover.
With regard to the instruments used to hedge cash flows relating to commercial transactions for the next fiscal year, estimated on the basis of information provided by the subsidiaries, the non-realised exchange losses and gains are deferred until the date of completion of the transactions covered.

• With regard to the interest rate risk, the profits generated by interest rate swaps covering financial liabilities are recorded symmetrically with the profit on the debts covered, prorata temporis.

NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

a) Acquisitions

The acquisitions made during the 2002 fiscal year are as follows:

	% acquired	Entry date	2002 sales since acquisition (€ millions)
Fully consolidated companies			
Shu Uemura Cosmetic Corporate (Taiwan)	75.00	January 2002	21.5
Proportionally consolidated companies			
The Laboratoires Inneov[1]	50.00	August 2002	NA
Asset acquisition			
Artec[2]		August 2002	13.3

(1) On 25th June 2002, the L'Oéal and Nestlé groups announced the signing of an agreement for the creation of a joint venture, The Laboratoires Innéov, whose aim is to develop the market for cosmetic nutritional supplements worldwide. The Laboratoires Innéov has been proportionally consolidated since August 2002.
(2) At the end of August 2002, L'Oréal acquired Artec Systems Group Inc., a company which markets professional haircare and colourant products in American hair salons.

The total price paid for the new acquisitions amounted to € 152 million.

Detailed figures on the goodwill resulting from these transactions are provided in note 4 *Goodwill*.

Shu Uemura Japan, a company in which the group acquired a 35% stake at the end of 2000 through its subsidiary Nihon L'Oréal, has been consolidated by the proportional method since 1st January 2002. At 31st December 2001, this company was accounted for by the equity method. At 31st December 2000, the recently acquired shares were entered under the *Investments in non-consolidated companies* item (note 7).

The acquisitions made during the 2001 fiscal year were as follows:

	% acquired	Entry date	2001 sales since acquisition (€ millions)
Fully consolidated companies			
Exclusive Signatures International (UK)	100.00	January 2001	
Thai Shu Uemura (Thailand)	68.15	January 2001	10.7
Exclusive Signatures International[1]	100.00	January 2001	
Cosbra (Brazil)[2]	100.00	July 2001	29.7
Equity consolidated companies			
Shu Uemura Cosmetics (Japan)	35.00	January 2001	-
Nobara Inc (USA)	35.00	January 2001	-
Shu Uemura (Hong-Kong)	22.75	January 2001	-
Asset acquisition			
Biomedic		July 2001	5.1

(1) Company created by the group to manage the business of Shu Uemura internationally.
(2) Colorama brand.

The total price paid for these acquisitions amounted to € 212 million.

b) Divestments

The group carried out no divestments in 2002.

In 2001, the group carried out the following divestments:
- In March, all stakes in the Marie Claire group were sold to Holding Evelyne Prouvost, controlled by Madame Evelyne Prouvost and her family.
- In July, the totality of Lanvin S.A. and its worldwide subsidiaries were sold to a group of investors from the holding company Harmonie S.A.

NOTE 3 - SECTORIAL INFORMATION

a) Consolidated sales

1) Breakdown of consolidated sales by branch

	2002		Growth (as %)		2001		2000	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Cosmetics	13,951.8	97.6	4.2	8.9	13,394.2	97.5	12,317.4	97.2
Dermatology[1]	321.1	2.3	9.9	17.8	292.2	2.1	262.6	2.1
Other	15.1	0.1	-	-	54.0	0.4	91.2	0.7
Group	**14,288.0**	**100.0**	**4.0**	**8.8**	**13,740.4**	**100.0**	**12,671.2**	**100.0**

(1) Group share, i.e. 50%.

2) Breakdown of consolidated sales by geographic zone

	2002		Growth (as %)		2001		2000	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,044.6	49.3	5.7	5.6	6,667.2	48.5	6,328.0	49.9
North America	4,438.7	31.1	-0.3	6.1	4,450.5	32.4	3,903.5	30.8
Rest of the World	2,804.7	19.6	6.9	22.7	2,622.7	19.1	2,439.7	19.3
Group	**14,288.0**	**100.0**	**4.0**	**8.8**	**13,740.4**	**100.0**	**12,671.2**	**100.0**

3) Breakdown of cosmetics sales by geographic zone

	2002		Growth (as %)		2001		2000	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	6,962.8	49.9	5.8	5.8	6,580.6	49.1	6,233.6	50.6
North America	4,224.8	30.3	-0.8	5.6	4,256.9	31.8	3,733.6	30.3
Rest of the World	2,764.2	19.8	8.1	24.0	2,556.7	19.1	2,350.2	19.1
Cosmetics branch	**13,951.8**	**100.0**	**4.2**	**8.9**	**13,394.2**	**100.0**	**12,317.4**	**100.0**

b) Adjusted operating profit

1) Breakdown of adjusted operating profit by branch

€ millions	2002	2001	2000
Cosmetics	1,767.8	1,604.2	1,426.3
Dermatology	65.2	61.8	57.3
Other	7.6	3.0	-2.3
Group	**1,840.6**	**1,669.0**	**1,481.3**

2) Breakdown of cosmetics adjusted operating profit by geographic zone

€ millions	2002	2001	2000
Western Europe	970.9	874.8	850.4
North America	535.4	522.1	442.5
Rest of the World	261.5	207.3	133.4
Cosmetics branch	**1,767.8**	**1,604.2**	**1,426.3**

c) Fixed assets

1) Breakdown of net fixed assets by branch

€ millions Net value	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	31.12.2002	31.12.2001	31.12.2000
Cosmetics	778.3	3,727.6	1,691.0	92.0	6,288.9	6,359.5	6,121.1
Dermatology		283.3	39.4	2.0	324.7	307.5	248.1
Other		0.5	16.7	60.9	78.1	80.3	113.9
Group	**778.3**	**4,011.4**	**1,747.1**	**154.9**	**6,691.7**	**6,747.3**	**6,483.1**

2) Breakdown of cosmetics net fixed assets by geographic zone

€ millions Net value	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	31.12.2002	31.12.2001	31.12.2000
Western Europe	334.9	2,357.4	923.5	20.2	3,636.0	3,426.0	3,260.1
North America	346.8	1,290.2	529.8	50.9	2,217.7	2,417.9	2,398.8
Rest of the World	96.6	80.0	237.7	20.9	435.2	515.6	462.2
Cosmetics branch	**778.3**	**3,727.6**	**1,691.0**	**92.0**	**6,288.9**	**6,359.5**	**6,121.1**

NOTE 4 - GOODWILL

€ millions	31.12.2001	Acquisitions Charges	Other movements(1)	31.12.2002
Artec		55.8	-11.9	43.9
Biomedic	8.7	0.9	2.6	12.2
Colorama	21.3	0.9	-9.5	12.7
Jade	18.6			18.6
Kiehl's	15.7		-2.0	13.7
Laboratoires Ylang	18.1		-10.9	7.2
Matrix	274.3		-20.3	254.0
Maybelline International	65.9		-8.6	57.3
Nihon L'Oréal	84.0	2.9	-0.1	86.8
Sanofi Synthélabo (equity method)	28.9	162.1		191.0
Shu Uemura	50.3	3.6	3.9	57.8
Softsheen.Carson.Dermablend	182.6		-20.9	161.7
Other companies	24.6	0.4	-0.4	24.6
Gross value	**793.0**	**226.6**	**-78.1**	**941.5**
Artec		1.0	-0.1	0.9
Biomedic	0.1	0.9		1.0
Colorama	0.5	1.0	-0.5	1.0
Jade	5.8	0.9		6.7
Kiehl's	1.1	0.8	-0.2	1.7
Laboratoires Ylang	1.7	8.0	-2.5	7.2
Matrix	19.5	14.4	-3.7	30.2
Maybelline International	20.0	1.5	18.6	40.1
Nihon L'Oréal	11.1	3.9		15.0
Sanofi Synthélabo (equity method)	3.6	3.0		6.6
Shu Uemura	2.4	4.1	-0.6	5.9
Softsheen.Carson.Dermablend	28.4	8.5	-4.8	32.1
Other companies	12.3	2.3	0.2	14.8
Amortisation	**106.5**	**50.3**	**6.4**	**163.2**
Net goodwill	**686.5**	**176.3**	**-84.5**	**778.3**

(1) This item consists mainly of changes in exchange rates affecting goodwill from foreign subsidiaries, and valuation adjustments during the allocation period.

Goodwill is amortised over a maximum period of twenty years. The goodwill amount takes account of deferred tax liabilities on trademarks and other identifiable assets that could be sold separately from the company acquired.
Goodwill valuations may be provisional up to the end of the accounting period following the acquisition date.
All the goodwill relating to the earlier acquisition of Miss Ylang in Argentina was amortised in 2002 (€ 8 million) in view of the country's economic situation.
The increase in the stake in the Sanofi-Synthélabo group has generated goodwill of € 162.1 million at 31st December 2002 (see note 8).

NOTE 5 - INTANGIBLE ASSETS

€ millions	31.12.2001	Acquisitions Provisions	Disposals Takeovers	Translation differences	Other movements(1)	31.12.2002
Licences, patents, trademarks and market shares	1,106.5	125.3	-3.4	-121.7	29.8	1,136.5
Business value	3,044.9		-5.0	-139.6	0.1	2,900.4
Other intangible assets	113.5	27.1	-8.3	-6.7	11.6	137.2
Gross value	**4,264.9**	**152.4**	**-16.7**	**-268.0**	**41.5**	**4,174.1**
Licences, patents, trademarks and market shares	70.9	11.7	-3.2	-4.2	-0.1	75.1
Business value	12.3	0.6	-0.4	0.1	-0.1	12.5
Other intangible assets	54.4	30.3	-7.2	-3.5	1.1	75.1
Amortisation	**137.6**	**42.6**	**-10.8**	**-7.6**	**0.9**	**162.7**
Intangible assets - net	**4,127.3**	**109.8**	**-5.9**	**-260.4**	**40.6**	**4,011.4**

(1) This consists mainly of the impact of variations in the scope of consolidation, of adjustments of the value of assets which are identifiable during the allocation period and of the impact of the proportional consolidation at 1st January 2002 of the company Shu Uemura Japan in an amount of € 29.9 million under the *Trademarks* item.

The impact of new inclusions in the scope of consolidation mainly relates to € 104.6 million under *Market shares* following the acquisition of Artec. Valuations may be provisional up to the end of the accounting period following the acquisition date.

NOTE 6 - TANGIBLE ASSETS

€ millions	31.12.2001	Acquisitions Provisions	Disposals Reversals	Translation differences	Other movements(1)	31.12.2002
Land and buildings	1,144.6	54.9	-31.9	-80.2	51.4	1,138.8
Machinery and equipment	1,766.4	163.2	-104.1	-152.7	54.7	1,727.5
Other tangible assets and work-in-progress	882.3	249.8	-63.3	-98.3	-116.7	853.8
Gross value	**3,793.3**	**467.9**	**-199.3**	**-331.2**	**-10.6**	**3,720.1**
Land and buildings	502.0	51.9	-19.1	-25.1	4.3	514.0
Machinery and equipment	1,064.0	137.6	-90.2	-86.8	-0.8	1,023.8
Other tangible assets and work-in-progress	466.0	72.6	-55.7	-47.3	-0.4	435.2
Depreciation and provisions	**2,032.0**	**262.1**	**-165.0**	**-159.2**	**3.1**	**1,973.0**
Tangible assets - net	**1,761.3**	**205.8**	**-34.3**	**-172.0**	**-13.7**	**1,747.1**

(1) These are mainly the result of the impact of changes in the scope of consolidation, and fixed assets in progress allocated to the *Other fixed assets* items.

Tangible assets include capital lease contracts for the following amounts:

€ millions	31.12.2002	31.12.2001
Land and buildings	169.0	169.6
Machinery and equipment	7.2	7.2
Other tangible assets and work-in-progress	12.4	12.6
Gross value	**188.6**	**189.4**
Depreciation	77.3	67.7
Net value	**111.3**	**121.7**

NOTE 7 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES

As at 31st December 2002, investments in non-consolidated companies amounted to € 12.3 million in gross value and € 4.8 million in net value compared with € 14.6 million and € 12.9 million respectively at 31st December 2001. As at 31st December 2000, investments in non-consolidated companies included € 61.3 million of shares following the acquisition of a 35% interest in the Japanese company Shu Uemura (see note 2).

NOTE 8 - INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies consist mainly of shares in the Sanofi-Synthélabo group, in which the L'Oréal group has a 19.98% stake at 31st December 2002 compared with 19.54% at 31st December 2001. The increase in the percentage held is the result of the buyback by Sanofi-Synthélabo of its own shares in 2002, which have been deducted from shareholders' equity in its consolidated financial statements. This transaction generated goodwill of € 162.1 million in the financial statements of L'Oréal at 31st December 2002 (see note 4).

At 31st December 2001, investments in associated companies included € 32 million relating to the stake in Shu Uemura Japan; as indicated in the section on *Changes in the scope of consolidation*, this stake is now consolidated by the proportional method (see note 2).

€ millions	% interest	Contribution at 31.12.2002		Balance-sheet value	
		Consolidated reserves	Consolidated profit for year	31.12.2002	31.12.2001
Sanofi-Synthélabo	19.98	1,092.6	344.9	1,437.5	1,360.0
Club des Créateurs de Beauté (Japan)	20.00	0.9	0.3	1.2	0.9
Shu Uemura Japan	-	-	-	-	32.0
Investments in associated companies		**1,093.5**	**345.2**	**1,438.7**	**1,392.9**

NOTE 9 - STOCKS

€ millions	31.12.2002	31.12.2001
Raw materials, packaging, consumables	397.8	396.9
Semi-finished and finished products	933.5	985.6
Gross value	**1,331.3**	**1,382.5**
Provisions for depreciation	185.2	205.1
Stocks - net	**1,146.1**	**1,177.4**

NOTE 10 - TRADE DEBTORS

€ millions	31.12.2002	31.12.2001
Trade debtors	2,075.7	2,273.2
Gross value	**2,075.7**	**2,273.2**
Provisions for depreciation	84.2	81.4
Net value	**1,991.5**	**2,191.8**

Trade debtors are due within one year.

NOTE 11 - OTHER DEBTORS AND PREPAID EXPENSES

€ millions	31.12.2002	31.12.2001
Fiscal and social debtors	332.7	316.2
Other debtors	150.3	115.3
Charges to be apportioned	192.6	201.4
Prepaid expenses	160.6	152.7
Point of sales advertising	109.3	119.7
Deferred tax	479.2	425.9
Total	**1,424.7**	**1,331.2**

NOTE 12 - SHORT-TERM INVESTMENTS

€ millions	31.12.2002	31.12.2001
L'Oréal shares	1,653.5	1,280.8
Unit trusts, etc.	160.5	142.7
Gross value	**1,814.0**	**1,423.5**
Provisions for depreciation	142.3	14.2
Net value	**1,671.7**	**1,409.3**

The 24,984,050 L'Oréal shares held for the employee share option scheme have a net value of € 1,516.2 million (after allowing for a charge of € 124.4 million under *Provisions for depreciation* in 2002) compared with € 1,267.2 million at 31st December 2001.

During 2002, 5,000,000 shares were purchased and 652,850 share options were taken out.

The total stock market value based on the closing price at 31st December 2002 was € 1,812.6 million, compared with € 1,669.5 million at 31st December 2001.

At 31st December 2002, the market value of the unit trusts was € 154.8 million, and their net value was € 141.6 million.

NOTE 13 - SHAREHOLDERS' EQUITY (AFTER MINORITY INTERESTS)

The share capital consists of 676,062,160 shares with a par value of € 0.20.

A L'Oréal share buyback programme was authorised by the Annual General Meeting of Shareholders on 29th May 2002 in order to contribute to an increase in the value of the assets of the group's shareholders.

Under this programme, 1,640,000 shares were acquired on 31st December 2002 for an amount of € 116.1 million. The acquisition cost of these shares has been deducted from consolidated shareholders' equity.

NOTE 14 - MINORITY INTERESTS

Minority interests related only to a few companies in amounts that were not material. The amounts were € 11.9 million and € 10.7 million at 31st December 2002 and 2001 respectively.

NOTE 15 - PROVISIONS FOR LIABILITIES AND CHARGES

a) Balances at balance-sheet date

€ millions	31.12.2002	31.12.2001
Provisions for employee retirement obligation and related benefits	896.3	893.0
Provisions for exchange losses	-	3.5
Deferred tax liabilities	45.0	88.7
Other provisions for liabilities and charges(1)	512.1	480.8
Provisions for restructuring	59.3	80.5
Total	**1,512.7**	**1,546.5**

(1) This item includes provisions set aside for tax liabilities and litigation, industrial and commercial liabilities relating to operations (breach of contract, product returns) and personnel costs.

b) Variations in *Provisions for restructuring* and *Other provisions for liabilities and charges* during year

€ millions	31.12.2001	Charges(2)	Reversals (used)(2)	Reversals (not used)(2)	Impact of change in scope of consolidation/ exchange rate/ others(1)	31.12.2002
Other provisions for liabilities and charges	480.8	207.3	-94.0	-29.7	-52.3	512.1
Provisions for restructuring	80.5	13.3	-23.2	-3.1	-8.2	59.3

(1) Mainly resulting from currency fluctuations.
(2) These figures may be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
• Restructuring costs	13.3	-23.2	-3.1
• Operating provisions	171.4	-92.9	-29.7
• Financial provisions	18.9	-	-
• Income tax	17.0	-1.1	-

c) Provisions for employee retirement obligation and related benefits

Employee retirement obligation and related benefits comprise in particular:

- pensions and benefits linked to retirement and/or early retirement,
- social benefits for retired employees (pensions, retirement bonuses, life insurance, medical assistance, etc.),
- other long-term benefits (gifts and long service awards).

Provisions for pensions and early retirement benefits

Employee retirement commitments are calculated using an actuarial allocation method on a final-pay basis (projected credit unit method). Since 1st January 2001, all obligations relating to pensions still to be paid to retired employees and the vested rights of employees have been included in the calculation. With regard to length-of-service awards payable on retirement, the calculation is made by straight-line depreciation over the whole length of active service of the employee in the group.

The actuarial assumptions used to calculate these commitments take into account the economic conditions in each country or in each group company. The average weighted assumptions for the group are as follows:

	31.12.2002	31.12.2001
• Discount rate	5.7 %	6.2 %
• Rate of salary increase	4.5 %	4.9 %
• Long-term return on assets	6.8 %	7.6 %

Social and other long-term benefits after retirement

These benefits have been evaluated on the basis of the same actuarial assumptions as those used to calculate pensions. Provisions have been made for all obligations relating to retired employees and for the vested rights of employees.

The variations during 2002 and 2001 are set out below:

€ millions	Actuarial liability	Coverage assets	Actuarial differences	Balance-sheet provisions
Balance at 1st January 2001	**1,541.1**	**780.5**	**-96.5**	**857.1**
Amounts for year:				
Vested rights	80.0	-	-	80.0
Impact of adjustment	92.6			92.6
Yield of funds	-	56.7		-56.7
Depreciation of actuarial differences	-		-0.3	0.3
Benefits paid	-61.3	-27.1		-34.2
Contributions paid	5.1	49.5		-44.4
Actuarial differences not entered on balance-sheet	28.6	-145.1	173.8	-0.1
Exchange rate impact	12.7	19.0	-4.7	-1.6
Other movements	-			-
Balance at 31st December 2001	**1,698.8**	**733.5**	**72.3**	**893.0**
Amounts for year:				
Vested rights	88.9			88.9
Impact of adjustment	93.5			93.5
Yield of funds		55.7		-55.7
Depreciation of actuarial differences			-2.0	2.0
Benefits paid	-68.8	-44.8		-24.0
Contributions paid	5.2	102.9		-97.7
Actuarial differences not entered on balance-sheet	42.2	-109.3	151.2	0.3
Exchange rate impact	-82.5	-58.9	-18.9	-4.7
Other movements	4.2	0.3	3.2	0.7
Balance at 31st December 2002	**1,781.5**	**679.4**	**205.8**	**896.3**

The retirement obligation booked as charges may be analysed as follows:

€ millions	31.12.2002	31.12.2001
Employees rights conferred during year	88.9	80.0
Adjusted vested rights obligation	93.5	92.6
Yield of funds	-55.7	-56.7
Depreciation of actuarial differences	2.0	0.3
Total	**128.7**	**116.2**

NOTE 16 - LOANS AND DEBTS

The group carries out financing through medium-term bank loans, and by the issue of short-term paper in France and the issue of short-term commercial paper in the United States. The two programmes represent amounts of € 1,600 million and USD 800 million respectively.

Liquidity for the issue of commercial paper is ensured by confirmed lines of bank cash. The cash lines, like the medium-term loans, are not subject to any financial ratio clauses or rating clauses.

Debt by type

€ millions	31.12.2002	31.12.2001
Short-term paper	1,296.9	1,440.7
Bank loans	1,032.4	1,235.6
Perpetual loan	53.6	61.8
Debts on capital lease contracts	91.0	103.4
Debenture loans	5.9	6.9
Overdrafts	166.3	90.5
Total	**2,646.1**	**2,938.9**

Debt by maturity date

€ millions	31.12.2002	31.12.2001
Under 1 year	1,821.1	2,063.6
1 to 5 years	706.1	721.1
Over 5 years	118.9	154.2
Total	**2,646.1**	**2,938.9**

Debt by currency
(after allowing for currency hedging instruments)

€ millions	31.12.2002	31.12.2001
Euro (EUR)	1,562.5	1,807.8
US dollar (USD)	805.6	627.0
Pound Sterling (GBP)	3.3	146.0
Yen (JPY)	39.9	96.5
Others	234.8	261.6
Total	**2,646.1**	**2,938.9**

Breakdown of fixed rate and floating rate debt
(after allowing for interest rate hedging instruments)

€ millions	31.12.2002	31.12.2001
Floating rate	1,810.6	2,092.3
Fixed rate	835.5	846.6
Total	**2,646.1**	**2,938.9**

Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 4.6% in 2001 and 3.6% in 2002 for the euro, and 5.1% in 2001 and 2.4% in 2002 for the U.S. dollar.

Fair value of loans and debt

The fair value of fixed rate debt is determined for each loan by the discounting of future cash flows, based on the debenture interest rate curves at the balance sheet date, after allowing for the spread corresponding to the group's risk rating.

The net book value of outstanding bank loans and other floating rate loans is a reasonable approximation of their fair value.

At 31st December 2002, the fair value of the debt amounts to € 2,671 million. At 31st December 2001, it amounted to € 2,962.5 million.

Debts covered by collateral

There were no significant debts covered by collateral as at 31st December 2002 and 31st December 2001.

Confirmed credit lines

At 31st December 2002, L'Oréal and its subsidiaries have € 2,048 million of credit lines that are confirmed but not used (€ 1,406 million at 31st December 2001).

NOTE 17 - DERIVATIVES AND EXPOSURE TO MARKET RISKS

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the group uses derivatives negotiated with organisations with the best credit ratings.

In accordance with the group's rules, the currency and interest rate derivatives are set up exclusively for hedging purposes.

Hedging of currency risk

The group is exposed to currency risk from commercial transactions recorded on the balance sheet or from future transactions considered to be highly probable.

The group's policy on exposure to currency risk from its commercial transactions is to hedge at least 80% of the currency risk by derivatives once the operating budgets have been allocated by the group's subsidiaries. Currency risks stem mainly (about 85%) from flows initiated inside the group.

All the group's future currency flows are analysed in detailed forecasts for the coming budget year. Currency risks that emerge are hedged by futures sales or purchases or by options, to reduce as far as possible the currency position of each subsidiary. The duration of the derivatives is determined as appropriate for the group's settlement flows.

As the group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by the management of their cash flow are almost non-existent.

With regard to the hedging methods, the group has set up a system of mutualised management of exchange rate risks which involves clearing by the group's bank, Regefi. The resulting net currency position of the group is hedged on the market. Exchange rate derivatives are negotiated by Regefi or in exceptional cases directly by group subsidiaries if the currency is not convertible, such operations being subject to control by Regefi.

The following derivatives are held for currency risk hedging purposes:

€ millions	Nominal		Market value	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Currency futures				
Purchase Euro / currency	**1,196.9**	**1,161.9**	**84.2**	**7.6**
EUR/USD	506.2	499.9	67.9	7.2
EUR/GBP	178.8	197.0	6.0	0.5
EUR/CHF	123.6	95.7	-0.5	0.1
EUR/CAD	64.5	45.0	5.7	0.9
EUR/West European currencies	89.0	98.6	-1.0	-0.8
EUR/East European currencies	128.0	56.7	0.6	-2.9
EUR/Asian currencies	32.2	79.0	2.0	4.5
EUR/Latin American currencies	12.6	31.6	1.7	-1.3
EUR/Other currencies	62.0	58.4	1.8	-0.6
Sale Euro / Asian currencies	**-32.2**	**-1.2**	**4.5**	**0.1**
Purchase USD / currencies	**311.6**	**266.7**	**2.4**	**13.6**
USD/CAD	20.7	14.2	-	0.2
USD/Asian currencies	127.2	117.8	-0.7	4.0
USD/Latin American currencies	117.9	100.6	5.4	9.2
USD/Other currencies	45.8	34.1	-2.3	0.2
Sale USD / CHF	**-66.5**	**-90.3**	**4.8**	**-3.0**
Other currency pairs	**58.0**	**27.5**	**-1.7**	**0.4**
Currency futures total	**1,467.8**	**1,364.6**	**94.2**	**18.7**
Currency options				
EUR/USD		71.7		1.1
EUR/GBP	22.5	-	1.4	-
USD/CAD	16.2	11.7	0.2	0.3
USD/BRL	40.0	28.2	6.3	0.3
Other currency pairs	9.0	5.7	0.2	0.1
Currency options total	**87.7**	**117.3**	**8.1**	**1.8**
O/w call options total	97.3	132.6	10.6	2.0
O/w put options total	-9.6	-15.3	-2.5	-0.2
Total	**1,555.5**	**1,481.9**	**102.3**	**20.5**

The put options total corresponds exclusively to the sale of previously purchased options when it appeared opportune to replace them with currency futures.

The fair value of the derivatives is their market value.

Hedging of interest rate risk

The group mainly refinances at floating rates and uses interest rate derivatives to reduce net exposure to interest rate risk. Such derivatives are never held for speculative reasons.

The derivatives are mainly swaps and interest rate options (purchase of caps) which are freely negotiated.

The market values of the derivatives set out above should be compared with the market values of the debts that they hedge.

The interest rate derivates are as follows :

€ millions	Notional		Market values	
Interest rate derivatives	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Borrowing floating interest-rate swaps				
EUR Euribor / fixed rate	534.5	590.6	36.3	30.2
CAD Libcad / fixed rate	-	37.6	-	-1.4
Borrowing fixed interest-rate swaps				
EUR Euribor / fixed rate	516.2	516.2	-4.5	1.7
USD Libor / fixed rate	238.3	472.0	-	-1.6
CAD Libcad / fixed rate	32.3		-0.6	
Floating/floating interest-rate swaps				
EUR Euribor / Euribor	197.4	136.9	2.7	3.0
Purchases caps				
EUR Euribor	952.4	1,064.1	1.7	1.3
USD Libor	762.6	508.1	0.1	0.6
CAD Libcad	12.1	39.1	-	-
Total	**3,245.8**	**3,364.6**	**35.7**	**33.8**

The fair value of the interest rate derivatives is their market value. The market value of the interest rate derivatives is calculated by the discounting of future flows at the interest rate ruling at the balance sheet date or applied by the third party banks.

Third party risk

The group has financial relations with international banks with the best credit ratings. The group thus considers that its exposure to third party risk is low.

Furthermore, the financial instruments used in exchange rate and interest rate risk management are issued by leading international banking counterparties.

NOTE 18 - OFF-BALANCE SHEET CONTINGENT LIABILITIES

a) Lease commitments

These liabilities amount to € 1,310.8 million at 31st December 2002 compared with € 1,039.3 million at 31st December 2001, of which:

- € 212.1 million is due in under one year at 31st December 2002 compared with € 192.9 million at 31st December 2001,
- € 579.1 million is due in 1 to 5 years at 31st December 2002 compared with € 529.3 million at 31st December 2001,
- and € 519.6 million is due in over 5 years at 31st December 2002 compared with € 317.1 million at 31st December 2001.

b) Other off-balance sheet contingent liabilities

The confirmed credit lines are indicated in note 16.
The other off-balance sheet contingent liabilities are as follows:

€ millions	31.12.2002	31.12.2001
Commitments given[1]	58.2	70.0
Minorities buyback commitments	155.0	164.9
Documentary credits	3.6	2.6
Commitments received	27.6	21.8

(1) These consist mainly of commitments given to administrations or commitments concerning loans granted to third parties who are partners of the group.

c) Shareholders' agreement entered into by L'Oréal

L'Oréal and the Elf-Aquitaine group (a subsidiary of the TotalFinaElf group) have concluded a shareholders' agreement concerning their respective interests in Sanofi-Synthélabo and governing their concerted action in relation to this company. The agreement, drawn up in anticipation of the merger of Sanofi and Synthélabo that became effective on 18th March 1999, will remain in force until 2nd December 2004. Unless one of the parties gives notice of termination one year before the latter date, the agreement will then be renewed indefinitely by tacit agreement, but may then be terminated at any time subject to one year's prior notice.

The agreement stipulates that the two parties will consult with one another before all annual general meetings and Board meetings, and before any important decision resulting in a commitment for Sanofi-Synthélabo. Furthermore, if a transaction could mean that either party could lose the possibility of accounting for its interest in Sanofi-Synthélabo by the equity method, the transaction is subject to the prior approval of both partners.

L'Oréal and the Elf-Aquitaine group have agreed to retain 19.4% of the current share capital of Sanofi-Synthélabo until the expiry of the agreement (except that each of the two groups is allowed to sell 0.5% of the share capital of Sanofi-Synthélabo per rolling period of 12 consecutive months: in this case, the other group is granted a pre-emption right for the shares concerned). At 31st December 2002, the two groups held 19.5% and 24.8% of the share capital respectively, which means that the Elf-Aquitaine group is free to sell a 5.4% stake, which would make its interest almost the same as that of L'Oréal. If Elf-Aquitaine wishes to sell its "free" shares, it cannot do so to a competitor of L'Oréal or of Sanofi-Synthélabo.

d) Possible liabilities

In its normal operations, the group is involved in legal actions and is subject to tax assessments, customs controls and administrative controls. The group sets aside a provision wherever a risk is found to exist, and an estimate of its cost is possible.

At present there is no exceptional event or dispute which could materially and with serious probability affect the results, financial situation, assets or operations of the L'Oréal company and group.

e) Environmental risks

The group carefully monitors changes in regulations and laws relating to environmental protection, and does not expect that they will have a significant impact on the future operations, financial situation, results or assets of the group.

NOTE 19 - NET SALES

Net sales represent sales to third parties by L'Oréal and its French and foreign subsidiaries.

In 2002 net sales totalled € 14,288 million, compared with € 13,740.4 million in 2001.

The breakdown of net sales by branch and geographic zone is indicated in the "Sectorial Information" section of the notes.

Breakdown of sales - France/Rest of the World

	2002		2001	
	€ millions	as %	€ millions	as %
France	2,019.9	14.1	1,928.8	14.0
Rest of the World	12,268.1	85.9	11,811.6	86.0
Group	**14,288.0**	**100.0**	**13,740.4**	**100.0**

NOTE 20 - PERSONNEL COSTS AND NUMBER OF EMPLOYEES

Personnel costs include amounts paid as employee profit sharing and the actuarial charge relating to the recording of employee retirement obligation and related benefits.

The total number of employees was 50,491 at 31st December 2002, compared with 49,150 at 31st December 2001.

Number of employees[1]	31.12.2002	31.12.2001
Western Europe	24,755	24,316
North America	10,021	10,035
Rest of the World	15,715	14,799
Total	**50,491**	**49,150**

(1) Including companies consolidated by the proportional method.

Remuneration of directors and management

€ millions	2002	2001
Boards of Directors	0.7	0.7
Management structures[1]	15.7	13.7

(1) Remuneration paid by all group companies.

Remuneration of senior managers

The gross total remuneration paid to the Chairman and Chief Executive Officer for 2002 amounted to € 6,264,634, including benefits and directors' fees, of which the fixed part amounted to € 3,048,980.

The gross total remuneration paid to the Executif Vice-President, Administration and Finance, for 2002 amounted to € 1,722,776, including benefits and directors' fees, of which the fixed part amounted to € 961,252.

NOTE 21 - RESEARCH AND DEVELOPMENT EXPENDITURE

This expenditure amounted to € 468 million in 2002, compared with € 432 million in 2001.

NOTE 22 - CHARGES TO PROVISIONS

This item amounted to -€ 51.2 million in 2002 compared with -€ 29.9 million in 2001. It consisted mainly of current assets in an amount of -€ 2.4 million (-€ 24.6 million in 2001), and liabilities and charges in an amount of -€ 48.8 million (-€ 5.1 million in 2001).

NOTE 23 - FINANCIAL EXPENSE - NET (EXCLUDING EXCHANGE RATE GAINS AND LOSSES)

€ millions	2002	2001
Net interest expense	-69.9	-126.2
Net gain on disposals of short-term investments	8.0	2.9
Payment discounts	-56.9	-51.1
Other	1.3	2.7
Net charges to financial provisions	-24.7	4.4
Financial expenses - net	**-142.2**	**-167.3**

The exchange rate effect is included in the adjusted operating profit.

NOTE 24 - INCOME TAX

a) Detailed breakdown of corporate income tax

€ millions	2002	2001
Tax due		
- operating profit	625.4	562.8
- non-operational items	-17.2	8.1
Deferred tax		
- operating profit	-45.6	-26.9
- non-operational items	-49.3	7.7
Income tax	**513.3**	**551.7**
Of which:		
- impact of tax rate differences on restructuring costs	-15.0	0.4
- impact of tax rate differences on capital gains and losses on fixed assets	-7.4	15.4
- impact of tax rate differences on treasury shares	-44.1	-

b) Analysis of tax charge

The difference between the theoretical tax charge, calculated on the basis of the tax rate of the parent company, and the effective tax charge for the group in 2002 may be analysed as follows:

€ millions	2002	2001
Net book profit before tax	**1,453.2**	**1,538.3**
Parent company tax rate	35.43%	36.43%
Theoritical tax on net book profit	**514.9**	**560.4**
Impact of permanent differences	109.3	47.5
Impact of tax rate differences	-77.2	-79.6
Change in non-recorded deferred taxes	-13.9	16.8
Other(1)	-19.8	6.6
Group tax charge	**513.3**	**551.7**

(1) Including tax credits, tax reassessments and provisions for tax liabilities.

c) Deferred taxes in the balance sheet

The net change in deferred taxes (assets and liabilities) may be analysed as follows:

€ millions	
Balance of deferred tax assets at 31st December 2000(1)	397.6
Balance of deferred tax liabilities at 31st December 2000	-82.0
Profit effect	19.2
Exchange effect	-5.3
Other effects	7.7
Balance of deferred tax assets at 31st December 2001	425.9
Balance of deferred tax liabilities at 31st December 2001	-88.7
Profit effect	94.9
Exchange effect	-4.3
Other effects	6.4
Balance of deferred tax assets at 31st December 2002	479.2
Balance of deferred tax liabilities at 31st December 2002	-45.0

(1) Of which € 242.4 million resulting from the application of the new employee retirement obligation calculation method.

Deferred tax assets and liabilities recorded in the balance sheet may be divided into the following categories:

€ millions	31.12.2002		31.12.2001	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	473.2	45.0	414.6	88.7
Tax credits and tax loss carry-forwards	6.0		11.3	-
Deferred tax total	**479.2**	**45.0**	**425.9**	**88.7**

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets totalled € 72.7 million at 31st December 2002, compared with € 105.4 million at 31st December 2001.

NOTE 25 - GROUP'S SHARE OF NET PROFIT BEFORE CAPITAL GAINS AND LOSSES OF EQUITY AFFILIATES

This item states the net profit before capital gains and losses and minority interests of equity affiliates, as defined in the *Accounting principles*.

NOTE 26 - CAPITAL GAINS AND LOSSES ON THE DISPOSAL OF FIXED ASSETS NET OF TAX

This item amounted to -€ 16.6 million in 2002, compared with € 130.7 million in 2001.

In 2002, this item consisted mainly of the disposal or exceptional amortisation of non-strategic fixed assets in individual amounts that are not material.

In 2001, this item consisted mainly of the profit from the sale of all holdings in the Marie Claire group, which took place in March 2001, and the impact of the disposal of Lanvin S.A. and its subsidiaries. The capital gain net of tax from these two transactions amounted to € 110.2 million.

NOTE 27 - RESTRUCTURING COSTS

These costs were accounted for mainly by provisions and costs relating to industrial and commercial reorganisation of existing companies, and of companies acquired during the year.

The item amounted to -€ 31.5 million in 2002, compared with -€ 28.3 million in 2001.

NOTE 28 - AMORTISATION OF GOODWILL

Amortisation of goodwill amounted to -€ 50.3 million in 2002, compared with -€ 40.7 million in 2001, and is set out in note 4, "Goodwill".

NOTE 29 - NET PROFIT BEFORE CAPITAL GAINS AND LOSSES AND AFTER MINORITY INTERESTS PER SHARE (€)

Net profit before capital gains and losses and after minority interests per share is based on the weighted average number of shares outstanding, after deducting the average number of shares held by consolidated companies which are not included in shareholders' equity. Treasury shares held for stock option plans and entered under *Short-term investments* are not deducted in this calculation.

The table below indicates earnings per share for the two years presented:

	31.12.2002		
	Earnings (€ millions)	Number of shares	Earnings per share (€)
Net profit before capital gains and losses and after minority interests	1,456.2	675,990,516	2.15

At 31st December 2002, there are no items which have a dilutive effect on the number of shares outstanding. The 1,640,000 L'Oréal shares held by the consolidated companies are included in the calculation of earnings per share.

	31.12.2001		
	Earnings (€ millions)	Number of shares	Earnings per share (€)
Net profit before capital gains and losses and after minority interests	1,229.1	676,062,160	1.82

At 31st December 2001, there were no items which have a dilutive effect on the number of shares outstanding. No L'Oréal shares held by the consolidated companies are included in the calculation of earnings per share.

NOTE 30 - VARIATION IN WORKING CAPITAL REQUIREMENT

In 2002 and in 2001, this item amounted to € 162.8 million and € 139.2 million respectively, and may be analysed as follows:

€ millions	2002	2001
Stocks	-67.3	52.4
Creditors	-288.8	-245.5
Debts	518.9	332.2

NOTE 31 - VARIATION IN OTHER FINANCIAL ASSETS

This line includes flows relating to treasury shares during the accounting period, classified as short-term investments and as deductions from shareholders' equity.

NOTE 32 - IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION

In 2002, this item mainly relates to the acquisition of Artec Inc.

In 2001, this item mainly related to the disposal of Marie Claire and Lanvin and the acquisitions of Biomedic, Colorama and Shu Uemura.

NOTE 33 - CASH AND CASH EQUIVALENTS AT END OF YEAR

This item amounted to € 529.3 million at 31st December 2002 and € 594.1 million at 31st December 2001, and may be analysed as follows:

€ millions	31.12.2002	31.12.2001
Short-term investments excluding treasury shares	160.5	142.7
Cash and short-term funds excluding accrued interest	534.4	541.6
Overdrafts, etc.	-165.6	-90.2

CONSOLIDATED COMPANIES

A - COMPANIES CONSOLIDATED BY THE FULL CONSOLIDATION METHOD (1)

Companies	Head Office	N° Siren	% Holding	% Control(2)
Anglo Overseas Finance (India) Private Ltd	India		99.99	
Areca & Cie	France	784 787 517	100.00	
Avenamite S.A.	Spain		100.00	
Beautycos International Co Ltd	China		100.00	
Belcos	Japan		100.00	
Belocap Productos Capilares Ltda	Brazil		99.99	
Biotherm	Monaco	56 S 00206	99.70	
Biotherm Distribution & Cie	France	552 127 458	100.00	
Caribel Fragrances Inc.	Puerto Rico		100.00	
Carson Midrand Manufacturing (Pty) Ltd	South Africa		100.00	
Carson Products West Africa Ltd	Ghana		100.00	
Centre logistique d'Essigny	France	443 660 618	100.00	
Centrex	France	728 201 898	100.00	
Chimex	France	548 201 490	100.00	
Cobelsa Cosmeticos S.A.	Spain		100.00	
Colainaf	Morocco		100.00	
Consortium Général de Publicité	France	552 089 690	100.00	
Cosbel SA de CV	Mexico		100.00	
Cosmelor	Japan		100.00	
Cosmephil Holdings Corporation	Philippines		100.00	
Cosmetica Activa Portugal Ltda	Portugal		100.00	
Cosmétil	Morocco		49.80	100.00
Cosmétique Active Belgilux	Belgium		100.00	
Cosmétique Active Deutschland	Germany		100.00	
Cosmétique Active España	Spain		100.00	
Cosmétique Active France	France	325 202 711	99.99	
Cosmétique Active International	France	350 760 559	100.00	
Cosmétique Active Ireland	Ireland		100.00	
Cosmétique Active Italia	Italy		100.00	
Cosmétique Active Nederland	Netherlands		100.00	
Cosmétique Active Osterreich GmbH	Austria		100.00	
Cosmétique Active Suisse	Switzerland		99.40	
Cosmétique France AB	Sweden		100.00	
Cospar S.A.	France	742 005 200	100.00	
Dr Pfalz	Germany		100.00	
Elebelle (Pty) Ltd	South Africa		100.00	
Episkin	France	412 127 565	100.00	
Erwiton S.A.	Uruguay		100.00	
Exclusive Signatures International (UK) Ltd	United Kingdom		100.00	
Exclusive Signatures International	France	433 976 255	100.00	
Fapagau et Cie	France	318 247 285	100.00	
Faprogi	France	393 461 454	100.00	
Finval	France	341 643 781	100.00	
Frabel	Mexico		100.00	
France Beauté Aktiebolag	Sweden		100.00	
French Cosmetics UK Ltd	United Kingdom		100.00	
Garnier New Zealand Ltd	New Zealand		100.00	

(1) In accordance with the requirements of article D248-12 of French company law, it is hereby stated that some of the information provided above is incomplete.
(2) Equivalent to the percentage holding except where otherwise indicated.

Companies	Head Office	N° Siren	% Holding	% Control[2]
Gemey Paris – Maybelline New York	France	339 381 584	100.00	
Geral Inc.	United States		100.00	
Goldys International	France	337 844 914	100.00	
Helena Rubinstein	France	542 033 485	100.00	
Helena Rubinstein Italia Spa	Italy		100.00	
Holdial	France	324 084 698	100.00	
Kosmepol Sp Z.O.O.	Poland		100.00	
L & J Re	France	413 178 740	100.00	
Laboratoire Garnier & Cie	France	572 186 047	100.00	
Laboratoires Garnier Paris	France	339 419 962	100.00	
Lai Mei Cosmetics International Trading Cy Ltd	China		100.00	
Lancarome A/S	Denmark		100.00	
Lancôme Institut et Cie	France	332 111 848	100.00	
Lancôme Parfums & Beauté & Cie	France	302 387 196	100.00	
Lancos	Japan		100.00	
La Roche-Posay Dermato-Cosmétique	France	410 336 127	99.96	
La Roche-Posay Laboratoire Pharmaceutique	France	306 688 714	99.96	
Lascad	France	319 472 775	100.00	
Lavicosmetica Cosmétique Active Hellas	Greece		51.00	
Lehoux et Jacque	France	572 072 544	100.00	
L.I.D.V.	France	975 620 675	100.00	
L'Oréal Argentina S.A.I.C.	Argentina		100.00	
L'Oréal Australia	Australia		100.00	
L'Oréal Belgilux	Belgium		99.99	
L'Oréal Canada Inc.	Canada		100.00	
L'Oréal Ceska Republica S.R.O.	Czech Republic		100.00	
L'Oréal Chile S.A.	Chile		100.00	
L'Oréal (China) Co. Ltd	China		100.00	
L'Oréal Colombia S.A.	Colombia		100.00	
L'Oréal Danmark A/S	Denmark		100.00	
L'Oréal Deutschland GmbH	Germany		100.00	
L'Oréal Division Productos de Lujo S.A.	Spain		100.00	
L'Oréal Division Productos Gran Publico S.A.	Spain		100.00	
L'Oréal Division Productos Profesionales S.A.	Spain		100.00	
L'Oréal España S.A.	Spain		100.00	
L'Oréal Finland Oy	Finland		100.00	
L'Oréal Guatemala	Guatemala		100.00	
L'Oréal Hellas S.A.	Greece		100.00	
L'Oréal Hong-Kong Limited	Hong-Kong		100.00	
L'Oréal H.U.P. GmbH & Co Kg	Germany		100.00	
L'Oréal H.U.P. Beteiligungs GmbH	Germany		100.00	
L'Oréal India Ltd	India		100.00	
L'Oréal Indonesia	Indonesia		100.00	
L'Oréal Investments BV	Netherlands		100.00	
L'Oréal Israel Ltd	Israel		92.97	
L'Oréal Italia Spa	Italy		100.00	
L'Oréal Japan Ltd	Japan		100.00	
L'Oréal Korea	South Korea		100.00	
L'Oréal Latvia	Latvia		100.00	
L'Oréal Liban	Lebanon		75.17	
L'Oréal Libramont	Belgium		99.99	
L'Oréal Luxury Products Division Australia	Australia		100.00	
L'Oréal Luxury Products Norge	Norway		100.00	

(2) Equivalent to the percentage holding except where otherwise indicated.

Companies	Head Office	N° Siren	% Holding	% Control[2]
L'Oréal Magyarorszag Kozmetikai Kft	Hungary		100.00	
L'Oréal Malaysia	Malaysia		97.50	
L'Oréal Maroc	Morocco		50.00	100.00
L'Oréal Mexico SA de CV	Mexico		100.00	
L'Oréal Mexico Servicios SA de CV	Mexico		100.00	
L'Oréal Middle East Fze	United Arab Emirates		100.00	
L'Oréal Nederland BV	Netherlands		100.00	
L'Oréal New Zealand	New Zealand		100.00	
L'Oréal Norge A/S	Norway		100.00	
L'Oréal Österreich GmbH	Austria		100.00	
L'Oréal Perú S.A.	Peru		100.00	
L'Oréal Philippines	Philippines		100.00	
L'Oréal Polska Sp Z.O.O.	Poland		100.00	
L'Oréal Portugal	Portugal		100.00	
L'Oréal Produits de Luxe France	France	314 428 186	100.00	
L'Oréal Produits de Luxe International	France	309 064 947	100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany		100.00	
L'Oréal Produktion Deutschland GmbH & Co Kg	Germany		100.00	
L'Oréal Romania	Romania		100.00	
L'Oréal Saipo Industriale Spa	Italy		100.00	
L'Oréal Saipo Spa	Italy		100.00	
L'Oréal Services Centre de Coordination S.A.	Belgium		99.99	
L'Oréal Singapore Pte Ltd	Singapore		100.00	
L'Oréal Slovenija Kozmetika D.O.O.	Slovenia		100.00	
L'Oréal Slovensko S.R.O.	Slovakia		100.00	
L'Oréal South Africa Holdings Ltd	South Africa		100.00	
L'Oréal Suisse S.A.	Switzerland		100.00	
L'Oréal Sverige AB	Sweden		100.00	
L'Oréal Taiwan Co. Ltd	Taiwan		100.00	
L'Oréal Thailand Ltd	Thailand		100.00	
L'Oréal Turkiye	Turkey		100.00	
L'Oréal UK Ltd	United Kingdom		100.00	
L'Oréal Uruguay S.A.	Uruguay		100.00	
L'Oréal USA Inc.	United States		100.00	
L'Oréal Venezuela CA	Venezuela		100.00	
L'Oréal Zagreb	Croatia		100.00	
Marigny Manufacturing Australia Pty Ltd	Australia		100.00	
Maybelline Kk	Japan		100.00	
Maybelline Suzhou Cosmetics Ltd	China		100.00	
Naderman	France	409 791 498	100.00	
Nihon L'Oréal Kk	Japan		100.00	
Ormes Bel Air	France	329 744 809	100.00	
Parbel of Florida Inc.	United States		100.00	
Par-Bleue	France	394 015 812	100.00	
Parcofrance Kosmetika Handelsgesellschaft	Austria		100.00	
Parfums & Beauté Belgilux	Belgium		100.00	
Parfums & Beauté Deutschland Gmbh	Germany		100.00	
Parfums & Beauté Hellas	Greece		100.00	
Parfums & Beauté Italia	Italy		100.00	
Parfums & Beauté Malaysia	Malaysia		98.77	
Parfums & Beauté Nederland BV	Netherlands		100.00	
Parfums & Beauté Suisse S.A.	Switzerland		99.63	
Parfums Cacharel et Cie	France	321 422 172	100.00	
Parfums Guy Laroche	France	304 504 574	100.00	

(2) Equivalent to the percentage holding except where otherwise indicated.

Companies	Head Office	N° Siren	% Holding	% Control[2]
Parfums Paloma Picasso & Cie	France	333 006 252	100.00	
Parfums Ralph Lauren	France	334 121 415	100.00	
Parlanvin	France	381 480 060	100.00	
Parmobel Limited	United Arab Emirates		75.00	
Prestige & Collections International	France	334 171 113	100.00	
Procosa - Productos de Beleza S.A.	Brazil		100.00	
Productora Albesa S.A.	Spain		100.00	
Productos Capilares L'Oréal S.A.	Spain		100.00	
Productos de Cosmetica Selectiva Lda	Portugal		100.00	
Redken France	France	441 459 443	100.00	
Redken Laboratories GmbH	Germany		100.00	
Regefi	France	592 065 239	100.00	
Rusbel	Russian Federation		100.00	
Scental	Hong-Kong		100.00	
Selective Beauté International et Cie	France	333 314 722	100.00	
Shu Uemura Cosmetic Corporate	Taiwan		75.00	
Siampar Limited	Thailand		100.00	
Sicos et Cie	France	687 020 214	100.00	
Sincos Pte Ltd	Singapore		100.00	
Socex de Expansao Mercantil em Cosmeticos	Brazil		99.00	
Société Civile Immobilière Socinay	France		100.00	
Société de Développement Artistique	France	417 893 112	100.00	
Sofamo	Monaco	58 S 00670	99.96	
Sofy	France	305 949 034	100.00	
Soprocos	France	586 680 092	100.00	
Soprogem	France	382 460 392	100.00	
Soproréal	France	383 069 663	100.00	
Sparlys	France	652 054 065	100.00	
Swan Beauties Pvt Ltd	India		100.00	
Thai Shu Uemura	Thailand		68.15	
Venprobel	Venezuela		100.00	
Yasulor Indonesia	Indonesia		100.00	

(2) Equivalent to the percentage holding except where otherwise indicated.

B - COMPANIES CONSOLIDATED BY THE PROPORTIONAL CONSOLIDATION METHOD

Companies	Head Office	N° Siren	% Holding	% Control[5]
Beauté-Créateurs	France	475 682 068	50.00 [3]	
Cosimar Japon KK	Japan		50.00 [3]	
Galderma Alpha	France	440 139 772	50.00 [4]	
Galderma Argentina S.A.	Argentina		50.00 [4]	
Galderma Australia Pty Ltd	Australia		50.00 [4]	
Galderma Belgilux N.V.	Belgium		50.00 [4]	
Galderma Brazil Limitada	Brazil		50.00 [4]	
Galderma Canada Inc.	Canada		50.00 [4]	
Galderma Colombia S.A.	Colombia		50.00 [4]	
Galderma Hellas	Greece		50.00 [4]	
Galderma Hong-Kong	Hong-Kong		50.00 [4]	
Galderma India Private Ltd	India		50.00 [4]	
Galderma Italia SPA	Italy		50.00 [4]	
Galderma Korea Ltd	South Korea		50.00 [4]	
Galderma KK	Japan		50.00 [4]	
Galderma Laboratories Inc.	United States		49.05 [4]	50.00
Galderma Laboratorium GmbH	Germany		50.00 [4]	

(3) Companies owned jointly with Les Trois Suisses.
(4) Companies owned jointly with Nestlé.
(5) Equivalent to the percentage holding except where otherwise indicated.

Companies	Head Office	N° Siren	% Holding	% Control(5)
Galderma Laboratories South Africa Pty Ltd	South Africa		50.00 (4)	
Galderma Mexico SA de CV	Mexico		50.00 (4)	
Galderma Nordic AB	Sweden		50.00 (4)	
Galderma Omega	France	440 139 533	50.00 (4)	
Galderma Perú Laboratorios	Peru		50.00 (4)	
Galderma Pharma S.A.	Switzerland		50.00 (4)	
Galderma Philippines Inc.	Philippines		50.00 (4)	
Galderma Polska	Poland		50.00 (4)	
Galderma Production Canada Inc.	Canada		50.00 (4)	
Galderma Research & Development	France	317 099 679	50.00 (4)	
Galderma Research And Development Inc.	United States		50.00 (4)	
Galderma S.A.	Switzerland		50.00 (4)	
Galderma Singapore	Singapore		50.00 (4)	
Galderma UK Ltd	United Kingdom		50.00 (4)	
Galderma Uruguay	Uruguay		50.00 (4)	
Innéov Belgique	Belgium		50.00 (4)	
Innéov Deutschland GmbH	Germany		50.00 (4)	
Innéov España S.A.	Spain		50.00 (4)	
Innéov France	France	444 491 161	50.00 (4)	
Innéov Portugal	Portugal		50.00 (4)	
Laboratorios Galderma S.A.	Spain		50.00 (4)	
Laboratoires Galderma S.A.	France	325 186 617	50.00 (4)	
Laboratorios Galderma Chile Limitada	Chile		50.00 (4)	
Laboratorios Galderma Venezuela S.A.	Venezuela		50.00 (4)	
Laboratorios Innéov	France	443 051 784	50.00 (4)	
Le Club des Créateurs de Beauté	Belgium		50.00 (3)	
Le Club des Créateurs de Beauté Taiwan	Taiwan		50.00 (3)	
Le Club des Créateurs de Beauté UK	United Kingdom		50.00 (3)	
Le Club des Créateurs de Beauté USA	United States		50.00 (3)	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany		50.00 (3)	
Le Club des Créateurs Cosmetic Versand GmbH and Co Kg	Germany		50.00 (3)	
Shu Uemura Cosmetics Inc.	Japan		35.00	

(3) Companies owned jointly with Les Trois Suisses.
(4) Companies owned jointly with Nestlé.
(5) Equivalent to the percentage holding except where otherwise indicated.

C - COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Companies	Head Office	N° Siren	% Holding	% Control(6)
Club des Créateurs de Beauté KK	Japan		20.00	
Nobara Inc.	United States		35.00	
Sanofi-Synthélabo	France	395 030 844	19.98	27.54
Shu Uemura International	Hong-Kong		22.75	

(6) Equivalent to the percentage holding except where otherwise indicated.

STATUTORY AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2002

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended 31st December 2002.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

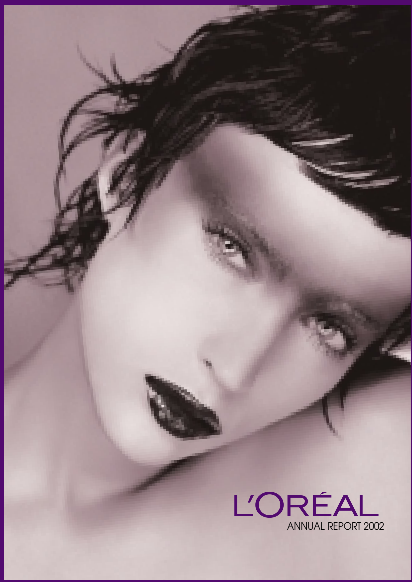
In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the group as at 31st December 2002 and the results of its operations for the year then ended in accordance with rules and accounting principles generally accepted in France.

We have also performed the procedures required by law on the group financial information given in the report of the Board of Directors. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

Paris-la-Défense and Neuilly, 26th March 2003

The statutory Auditors

Pierre Coll — Etienne Jacquemin



http://www.loreal.com
http://www.loreal-finance.com

L'ORÉAL

Incorporated in France as a "Société Anonyme"
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